INDIGENOUS INDIAN BANKING

A Paper read at the Royal Society of Arts, London

BY

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With a Discussion

BY

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INDIAN SECTION

Friday, November 11th, 1927

SIR HENRY STRAKOSCH, G.B.E., in the Chair.

THE CHAIRMAN said the subject of the lecture that evening, Indigenous Indian Banking, was one that was both interesting and, in view of its close connection with the question of establishing in India a true Central Bank, very important. He hoped the discussion on the paper would be an exhaustive one and would be of help to those who would be called upon, in accordance with the proposals of the Indian Currency Commission, to study the subject of Indigenous Indian Banking. He thought it would have been quite possible to be without a Chairman at that Meeting, because Mr. Gubbay hardly needed an introduction, being well-known both in this country and in India through his long and distinguished career as a public servant of the Government of India, and latterly as General Manager of the P. and O. Bank. Mr. Gubbay's career in the Public

Service was a very distinguished one. He filled the important posts of Collector of Customs at Bombay, Wheat Commissioner for India, Controller of Currency, and finally Financial Secretary of the Government of India. All those functions had brought him into close contact with the subject on which he was reading the paper.

INDIGENOUS INDIAN BANKING

BY

M. M. S. GUBBAY, C.S.I., C.I.E.

General Manager, P. & O. Banking Corporation, Ltd.

I propose to discuss in this paper the position, as it presents itself to me under existing conditions, of two important groups in the Indian banking system. The customary description of this system distinguishes, on the one hand, between the organised Banks, that is, Banks working on joint stock principles, and the private Indian banker, that is, the *shroff, chetty, mahajan,* working on private account and outside the provisions of the Companies Act. As to the organised Banks, these again are classified according as their capital is in sterling or in rupees, and their management and control is outside India or in India. Among Banks with rupee capital and local management, the Imperial Bank is differentiated from other joint stock Banks with rupee capital and local management, and these latter, again, are distinct from the Co-operative Banks working under special statutory provisions. The purport of this paper is to attempt an appreciation of the present and future position of the joint stock

Banks with rupee capital and local management, and of the private Indian banker, under the general scheme which is being evolved as the outcome of the Royal Commission's recommendations for the reform of the Indian banking system.

The Government Statistics on Banking recorded the existence in 1925 of 74 joint stock Banks. Their paid-up capital and reserves aggregated Rs. 11.78 crores: their deposits Rs. 57.91 crores. These 74 Banks include 46 Banks whose capital and reserves ranged between 1 lac and 5 lacs, and whose deposits amounted to under Rs. 3½ crores. The balance Rs. 54.49 crores was distributed among 28 Banks: and among these, six Banks between them accounted for no less than Rs. 47.30 crores. Of these six Banks, two, the Bank of Baroda and the Bank of Mysore, are the Bankers of the Indian States in which they operate: they do not fall, therefore, in the same category as the remainder, whose activities are purely commercial, and who have not the advantage of acting as State or Government Bankers. Of these four institutions, which are really the sole important instances in India of purely private enterprise engaged in banking on a joint

stock basis, two are of Bombay origin, the Bank of India, and the Central Bank of India, the Punjab National Bank, as its name implies, originated in the Punjab; and the Allahabad Bank in the United Provinces. This latter Bank enjoys the distinction of being by far the oldest of these joint stock Banks, having been founded in 1865. Having established itself in the United Provinces and the Punjab and Central Provinces and formed a strong and extensive local connection in the mofussil, it has moved its headquarters in recent years to Calcutta. It affords a solitary instance, among Banks of its kind, of the entry of a purely mofussil Bank into the commercial banking of a Presidency town. In all other cases where branch banking has been part of the policy followed, the development has been outwards from the Presidency town. Another feature which is common to these Banks, is the persistence of separate individual organisations: with the exception of the Central Bank of India, which has absorbed the Tata Industrial Bank, there has been no case of fusion or amalgamation.

The chief business of these joint stock Banks is concentrated in the Presidency towns, the large sea-ports, and the more important

commercial centres up-country. It is here alone that opportunities offer, on a large scale, for the suitable investment of banking funds. The branches act as feeders, the funds that they can attract being mostly remitted to the Banks offices at the chief commercial cities. Suitable local investments are not, as a rule, available to these branches. The borrowing propositions which come before a branch Agent, rarely conform to the requisite standards of security of maturity. In most cases, personal security, or a personal guarantee of another party is offered: where house or landed property is tendered as cover for accommodation, the advance is usually required as a continuing loan, liquidation to be spread over an extended period. This lack of suitable banking investments available to branches has a twofold effect. In the first place, it results in the rates which branch Banks can offer for deposits being determined, not by the measure of the local demand for accommodation, but by the rates at which these deposits can be invested in well-secured short term commitments at the commercial centres. In the second place, it forces the branch Bank to leave to other agencies, generally to the private banker, the function of supplying the local needs for accommodation.

We have here one important factor to account for the slow development of branch banking in India. High rates of interest prevail in the Indian bazaar, and very notably in the mofussil bazaars. Some evidence of bazaar rates for money is available in the Controller of Currency's Reports. The Report for 1927 gives the bazaar bill rate in Calcutta as between 10½ per cent. and 11 per cent.: these are the rates at which the bills of smaller traders are discounted by *shroffs*. The Imperial Bank *hundi* rate in 1926-1927 did not exceed 7 per cent., and was as low as 3 per cent. in the slack months: the *hundi* rate of the Imperial Bank is, of course, the rate at which that institution will discount or rediscount first class three months bills; and, in practice, this rate has reference to bills which bear the endorsement of a *shroff* whose signature is acceptable to the Bank. Of mofussil rates there is no regular official record, some line can be drawn from the rates prevalent in Bombay and Calcutta: and from the rates at which *chetties*, who are largely engaged in financing internal trade transactions in Madras and Burma and Ceylon, borrow from organised Banks. Advances to *chetties* are generally on the basis of 2 per cent. above Imperial Bank rate with a

minimum of 7 per cent. Bank advances on grain, seeds and produce are generally on the basis of 8 to 9 per cent. Looking to the margin between the rates which Banks pay for deposits and these rates, it might seem that there should be a large scope for the remunerative employment of funds in the mofussil. But, in point of fact, the position is quite the opposite. The high rates which can be earned in the mofussil are, to a large extent, caused by the fact that banking funds can only, to a very limited extent, be employed in the mofussil; the security which is offered to cover an advance is not suitable; in a general way it is known that the funds are required to finance the movement or purchase of produce, or of imported goods: the drawer of the *hundi* or the borrower may be known generally to be engaged in the marketing of produce or imported goods; the bill or the advance purports to be based on goods purchased or about to be purchased: but there is, as yet, under conditions as they exist in India, no means available to the Bank to connect the bill or advance with any particular lot of goods or produce: sale contracts, invoices, documents of title are usually not tendered in support of the bill or advance. It rests really on the general

security of the assets of the parties to the bill or the borrower. There will, of course, be cases in which it is possible to secure the segregation, from among the borrower's general assets, of the particular goods which are to represent the security on which the Bank can rely for its advance, but such cases are not the general rule. In the vast majority of instances the business offering is on the basis of the borrower's general credit position—without hypothecation of any particular assets as cover for the accommodation desired.

Branch Banking has, for these reasons, very largely left this business to the private Indian banker to handle, and has, in the main, directed its activity in the mofussil to the purpose of securing deposits for use at the Presidency towns and the larger commercial centres. Naturally there must, in the circumstances, be a great disparity between the rates which Banks can offer for funds, and the rates which the bazaar can afford to pay, and can expect to earn in bazaar operations; and this disparity has affected the power of Banks to tap local funds in competition with the bazaar. Much has been said and written about the urgent necessity of developing banking habits in India. There is

no manner of doubt whatever that the wider use of the cheque, in place of the currency note and the silver rupee, is an essential requirement from all points of view, and I am in entire agreement with the policy which has resulted in the exemption of the cheque from stamp duty. I do not doubt, also, that the recent expansion of the branch system of the Imperial Bank will have a great effect in the direction of stimulating the use of the cheque. But progress in this direction will not, by itself, put before branch Banking in India a clearer prospect of greater development. I imagine that the experience of the branches of the Imperial Bank is not sensibly different from that of the branches of other Banks. It is, perhaps, possible that, because the Imperial Bank has the use free of interest of Government balances, and has also the means, through the Government account, of cheapening to the trader the cost of transfer of funds between one inland point and another, its branches can offer to traders facilities on terms more favourable than those which other Banks can afford; and will, thereby, show a degree of development which, statistically, will give cause for satisfactory comment. But if this development, as is claimed by the other

joint stock Banks, does not represent, substantially, that organised Banking is taking a larger share in the financing of internal trade transactions, it must be conceded that it is premature to express gratification at the numerical increase of offices where Banking facilities are available in the mofussil.

This difficulty which faces organised Banking in its penetration in the mofussil may be considered from another aspect. In a general way, it is known that the part played by organised Banking in the financial life of the people of India is inconsiderable when contrasted with that which is played by the private Indian banker. There are no precise data available as to the extent of the operations of the latter. He is to be found everywhere, in every village, town and city in the country. The type ranges from the small village capitalist to the wealthy, well-established private partnership, generally a family partnership of merchant bankers which has agencies in and outside India. A special type is that of the *chetty* community in Madras, where there exists something approaching to joint responsibility of the community as a whole for the liabilities of individual members of the community. It is known that in

many cases accounts can be maintained with these Indian bankers on which operations by cheque are permissible, and I have been informed on good authority of one case at least in which on such current accounts as high a rate as 6 per cent. is allowed. It is also known that funds lie with these Indian bankers on time deposit, at rates much above those which are available from the Banks. Occasionally, when disaster overtakes one of these private bankers, figures are mentioned of their liabilities to private persons, which point to their ability to attract considerable sums. I see no reason to doubt the commonly accepted view that both because these private bankers can afford to pay attractive rates of interest, as well as because their requirements as to security are less rigid, their participation in the financial life of the community, as a whole, must be on a very extensive scale. Further, they are in intimate daily touch with those with whom they transact business, and can follow the doings of their clients with a closeness which is denied to the Banks. There must be accumulated with these private bankers a store of knowledge and experience of the standing, moral as well as financial, and capacity of individual Indian traders

and Indian trading firms, their business connections and relations on which, if fully organised and systematised, might possibly quite suitably rest an expansion of credit facilities from the Banks.

As things are, however, at present, the only link which we find between the Indian banker and the Banks is supplied by the endorsing *shroff* to whom I have already referred. It is the signature of the *shroff*, who is on the Bank's list of approved *shroffs*, which renders acceptable to the Banks the bill which traders draw. For each *shroff* the Banks have specific limits up to which they will accept paper bearing his endorsement. As to what is behind the paper so made, nothing definite or precise is known. A differentiation is professedly made between paper drawn to finance commercial transactions, and "hand *hundies*," which are pure finance paper : but as in neither case are any documents tendered to the Banks in support of the paper, the differentiation can only rest on general assumptions. In practice the real basis is the personal standing of the *shroff*, supplemented by such knowledge of his general transactions and procedure as can be ascertained by investigation. Some scrutiny is applied by the Banks

to the names of the makers of the paper which the *shroff* endorses : the frequency of the same names may, and does, cause Banks to reject paper made by such parties, even though it may bear the endorsing *shroff's* signature. The functions of the endorsing *shroff*, it should be noted, do not resemble those which, according to European banking practice, are associated with the accepting merchant banker. The business of the endorsing *shroff* is the investment of funds, whether his own, or deposited with him by other parties, in *hundies*. So long as he can carry these *hundies* unaided by Bank funds, he will do so. He looks for his profit to the difference he can secure between the rates at which he can borrow funds, and the rates at which he can employ them in *hundies*. As Banks do not compete with him for the purchase of traders' *hundies*, the *hundi* rate in the bazaar has little relation to Bank rate, and is determined by the *shroffs* themselves. When seasonal movements of produce, or of imported goods, occur so as to cause the supply of *hundies* to increase to a point beyond the capacity of the *shroffs* to finance them, resort is had to the Banks : and endorsing *shroff's* limits are then fully utilised.

The operations of the *shroffs* lie outside the influence of the organised Banking system of the country, and are on the whole, very little affected by the credit policy of the Banks. Only a fractional portion of the demands which the *shroffs* supply being derived from Banking funds, and then only at times of temporary stringency or pressure, it follows that the Banks cannot interfere to moderate the suddenness of the transition between excess and shortage, or *vice versa*. This cause may explain the variations which we find, from experience, to be common in India in the demand for money at different periods of the year. This aspect of the problem will assume an increasing importance when and if a Central Banking authority is called into existence whose function is to be to control credit as well as currency policy. Hitherto, as the Royal Commission has quite rightly observed, there has been no real effective control of the credit situation by any authority, within or outside the Government. Such control, as has been possible at all, has been through the fact that bazaar operations and the general transactions of the country have had to be conducted with silver or note currency, and credit requirements have had to some extent to

follow the supply of currency available. But if we are to assume that an expansion of operations by cheque is to set in in India, and payment by cheque displaces in the bazaar and in the mofussil payment in silver or note currency, what means are available to secure for the Central authority an effective control over the credit operations of the bazaar?

This question appears to me to be of primary importance, and its solution does not appear to me to be simple. I quite appreciate and understand that a new and increasingly important role will fall to be played by the approved commercial bill in the new equipment which is under construction for the Indian banking system: I can also see that means can be adopted both by the State and the Central authority to encourage the practice of financing by means of bills. Quite possibly, under the effect of these means of encouragement, the cash credit system may, in course of years, give way to the bill, though I personally anticipate that the process will be slow and gradual. But, even assuming that the change comes about rapidly, we shall still be left with the position that there will be lying beyond the influence and reach of the Central authority a very considerable, perhaps

a preponderatingly large amount of financial and commercial transactions which, in the hands of bazaar dealers in credit, will be only indirectly responsive to Bank rate policy. The regulation of the credit policy of the organised Indian joint stock Bank presents no difficulty: these institutions are already in sufficient contact with those charged with Bank rate policy to be sensitive to its effects. But neither they nor the Imperial Bank have so close an association with the bazaar as to be in a position to moderate or govern the operations of the bazaar dealers in credit. If the Central authority is to rely on its own open market operations to make its policy effective in the bazaar, it will only be able to do so by directly assuming commitments which the experience of other Institutions has taught them to avoid, and I do not doubt that this experience will be severely respected. The question then turns on the possibility of bringing about a modification of the basis on which the bazaar *hundi* is now grounded, so that the latter will conform, in those essentials, to the requirements which will make it acceptable as a suitable investment for Banking funds. This change will, at best, be slow in coming, and an essential preliminary is an

investigation of the conditions which now obtain. An extensive and scientific survey of banking conditions formed one of the recommendations of the Royal Commission, and such a survey must necessarily include the study of the means for broadening the channel between the bazaar and the Banks, of enlarging and quickening the contact between these two elements in the Indian banking system, and of securing that credit operations throughout the whole system will respond to the policy of the Central Banking authority.

DISCUSSION.

Mr. E. L. PRICE, C.I.E., O.B.E.

Mr. E. L. Price, C.I.E., O.B.E., said he hoped he would not be censured for any irrelevancy, but the subject was rather difficult, especially from the point of view which the lecturer had taken. He had extended the definition of indigenous banking to joint stock Banks modelled on severely British lines, and he would put it to the lecturer that when a Madras gentleman came to London and took his M.D. and returned to Madras and practised Western medicine, would he be inclined to call that indigenous medicine ? It was Western medicine practised by an Indian, not empirically, but based on Western methods and training. Indigenous banking should be confined to the operations of the *mahajans*, Marwari bankers, *shroffs*, and so forth. The ordinary man was not worrying about any of those names ; he had one word for all of them, *bania*. For that there was a very good and substantial reason. All that so-called "banking" was largely usury, and it was mixed up with dealing in the necessities of life, seed and so forth, and the rates charged, an anna in the rupee per month, were on the basis of 75 per cent. per annum

plus compound interest reckoned monthly, which must actually come to 100 per cent. That was a very common affair. His own feeling was that the lecturer had given rather greater credit to those institutions than they deserved. They were essentially the money-lending fraternity, usurious ; and the bulk of the money they lent consisted of their own family funds, not deposits collected in the ordinary banking way. He should like to go back to the essential basis of Banking. In the case of Insurance, everybody would recognise at once that however it might be organised it was essentially a co-operative business. Some people formed themselves into mutual societies, but in other cases the company was really only the manager for the accumulated risks and liabilities. It was the same with banking. He had read the Report of the National Provincial Bank, and he noticed that the amount due to the shareholders for the capital they put up was just under 7½ millions and the amount due to the depositors for what they had put up was 260 millions. That meant that in banking proper the shareholders put up enough money to make the expert organisation but practically the whole trading capital of

the Bank was put up by the depositors. It must be much the same in India. The shareholders' returns might seem very handsome from a dividend point of view, but from the point of view of the balance sheet they were a very small item, and from the point of view of the turnover they were absolutely insignificant. If that essential fact had only got into the minds of those who opposed the original Government proposals for an Indian Reserve Bank, he could not think they would have taken the course they did. They exaggerated the importance of the share capital and the dividends payable thereon; from the very start it was going to be limited and the profits over a certain amount were to go back to Government. That Reserve Bank was held up and all that it implied, and he was shocked to see it suggested in the *Statist*, the other day, that the Imperial Bank of India might be patched up and carried on as a Reserve Bank. The man who wrote that could not be aware of the facts. The Imperial Bank of India as a Bankers' Bank had failed wholly and irretrievably. He was not saying it was its own fault. As soon as the Imperial Bank was constituted out of the old Presidency Banks, the Government forced upon it the

multiplication of branches, and there were now one hundred branches. The net result was bad. It was forced into a sort of commercial Banking, and as a natural result it had to desert its previous province of Bankers' Banking. He believed branches were established by the National Bank of Australia, but had seldom heard of them being found anywhere else. It was certainly not the practice of the Bank of England, but was partly the practice of the Bank of France. The Imperial Bank was not in the purview of the Royal Currency Commission, and he did not see, at the present time, in the present position of the Imperial Bank with all its hundred commercial branches, that it could possibly retrace its steps and become a Bankers' Bank. The position of the Imperial Bank to his mind was a very serious one from the point of view of Banking in India. The Imperial Bank not only had free money from Government on which it paid no interest at all but was supposed to render certain services, but had obtained large public funds from other bodies. Municipalities, Port Trusts, and a number of old established Companies were all bound by their Articles of Association to lodge money with the Imperial Bank, which was the only one in India

that paid no interest at all on current accounts. It had no need to, because the money came to it for nothing. It offered no interest as a rule on short period deposits. When he left India at the end of August, it was offering $3\frac{1}{2}$ per cent. for twelve month deposits, and if nobody wanted to deposit for twelve months it would not take the money, but it had a Savings Bank Department for petty sums. The Imperial Bank, endowed with free capital funds, handicapped Banking generally not so endowed. The lecturer had said that the deposits in the seventy-four Indian Banks were a shade under 58 crores, roughly $43\frac{1}{2}$ million pounds. The population—and he thought the lecturer must have taken All-Indian figures—was 320 millions. Dividing the one into the other it did not come to 3/- per head. There were also the Post Offices, the Exchange Banks and the Co-operative Banks and lumping them all in and so multiplying the known figures of the 74 known Banks by 3, it was not possible to get the bank deposits up to a miserable 10/- per head. When bank deposits from people did not average 10/- a head, Banking could be hardly said to exist. People were spending their time trying to differentiate the species when they had not established the

existence of the genus ! There was a meeting of the London Institute of Bankers the other day, and he noticed that the Chairman, Mr. Frederick Hyde, was extremely indignant ; he said that a number of people were carrying more money about with them and the Bank funds were not so full as they should be, and he wanted to know how the Banks were going to finance industry if people ceased to put money into them. How were the Banks in India going to finance anything if Indians would not put their money in ? If it was said that the deposits were small because the people were poor, what about hoarding ? A number of estimates of the hoarding in India had been made, and that hoarding had been going on from time immemorial. In the crucial year, 1924-25, when gold was most required to enable this and other countries in Europe to stabilise currency, India added a good fifty millions to her hoard of gold. The Americans appeared to know something about hoarding in these days, and he felt inclined to take the figures given by the American Trade Commissioner, who put the value of gold and silver hoarded at 1,000 millions sterling. Comparing that with the Bank deposits, 43½ millions, it meant that for every £1 banked in India £11 was hoarded. He should

like to describe how that hoarding ran from top to bottom of the social scale. He was at an arbitration not so many years ago and ultimately the parties came to terms, and cash had to be paid—a very large sum of over a quarter of a lakh of rupees. The paying party rose from his chair and produced a neatly-folded, very cheap, probably gaol-made, towel, opened it, and in it there was over a lakh of rupees in currency notes. That man said he always carried his money in that way. There was an Indian he knew quite well who had buried 300 sovereigns for seventeen years, and then dug them up and sold them for 20 rupees each, making a profit, but that profit was nothing to the steady income he had lost during the seventeen years, and he was a poor man. There was a rich man who died, and his sons were in great grief because the old man had bought 5,000 sovereigns and they could not find them; he had hidden them, and they suspected it was in the garden of his country-house, but they never found them. They were lost, not merely to the family, but to civilisation! There was a dealer in Bombay, an educated man, who had several banking accounts and large investments, and in course of speculation came into the hands of the

Official Receiver. He honestly returned his assets as including over 3 lakhs of silver, which had remained undisturbed in his house for thirty years, and on an estimate he must have lost in interest three times the value of the hoard. The position seemed to him to be pretty desperate. The English banker said that the people must bank their money, and with that money everybody who was producing, should be scientifically equipped. Without that money the Indian producer was struggling as best he could with his bare hands, and his efforts of production were low and inefficient. Remembering that £11 was hoarded in India for £1 invested, was it to be wondered that Indian labour was inefficient and that people were ill-educated and ill-equipped in every way? Personally he had great faith in Co-operative Banks, but ways must be devised to induce people to bank their money and not hoard it, because, while they hoarded, their bad monetary habits were making things much worse both for themselves and the rest of the world.

SIR SELWYN FREMANTLE, C.S.I.

SIR SELWYN FREMANTLE, C.S.I., said he had been very much encouraged by what Mr. Price had said with regard to the branch of Banking in which he was interested, and had been interested for the last twenty years, from the time he was Registrar of Co-operative Societies in India. He thought the idea underlying the paper was that in the interest of industry and trade it is highly desirable to extend banking facilities over a wider area. The Industrial Commission in their Report, which was published towards the end of the war, said that there were many small towns in India without any banking facilities at all, and that the volume of business which went on in those towns would be quite sufficient in Europe and America to warrant the establishment of a branch Bank, even if it only opened two or three times a week. The lecturer had explained the reasons why even the extension of branches of joint stock Banks would not be likely to fill that void; the fact was that they did not cater for the small traders or industrialists or agriculturists. The security which the people could give was not such as the Bank could accept. Moreover joint stock Banking in India had received somewhat of a

set-back owing to the failure of the Banks which were founded in great numbers two decades ago, and which mostly collapsed before the beginning of the war. The failure of the Alliance Bank had been a considerable shock to confidence in Upper India to people who might have been expected to avail themselves of joint stock Banks for deposits. The branches of joint stock Banks, which had been and were being established, besides keeping current accounts for officials and professional men, had as their function to accept deposits and send them to the commercial centres because they could not be utilised locally. It seemed to him that urban Co-operative Societies, known as People's Banks, could, to a great extent, fill up the gap which admittedly existed in the system at present. Mr. Price had made a most interesting speech, and the instances he had given of the amount of money lying idle in hoards all over the country were very striking. He had had experience of it. If in some small agriculturist family 100 or 200 rupees was required to pay a man's fine or cost for a law-suit, the money always appeared. No one knew the extent of the hoarding of India, but it was very great. It might be said that there were at present a

very considerable number of urban Co-operative Societies in India, but they were mainly in Bombay and Madras, small societies formed amongst employees of a particular firm or small artisans, and they did not as a rule take up the functions of commercial banking. In Germany the popular Co-operative Banks were very different. There they attempted—and to a great extent succeeded—to perform all the functions of joint stock Banks. Ever since they had started they had been in direct competition with branches of joint stock Banks, but they had increased and multiplied until now there were over 2,000 of them. He believed they generally advanced money on cash credit accounts, the amount of which was secured by bond, but they also discounted bills and so on. The popular banks in Italy were not so numerous, but they were much larger and generally more important. They advanced money against cash credits and also against goods, securities and valuables. Those institutions had done a very great deal for their countries, and the French Government was so impressed by what they had done that in 1917, while the war was going on, they passed a law to establish such banks and for providing a credit for

them to the extent of 12 million francs, raised afterwards to 50 million francs. In the course of three years, eighty such banks were established. There seemed no reason why Banks of Co-operative character should not succeed in meeting the wants of the people if joint stock Banks failed to do so. There was a very great difference between the two, although to some extent, they did the same kind of business. In the first place the shares were kept as low as possible ; he believed 100 lire was the largest share in any popular Italian bank, some being as low as 5 or 6 lire, and they could be paid by instalments. The dividend was limited sometimes by law and sometimes by custom, and that, of course, made a very great difference. They took a special interest in the savings of the poor man by giving him special terms, and also by issuing money boxes in order that smaller sums might be collected. The rate of interest charged was very low, 7 or 8 per cent. being the highest rate, and in some cases it was even as low as 4½ per cent. The *castalletto* was a kind of normal credit allowed for each person, and in the case of small people who had nothing except their personal credit, they had officers who went carefully into the objects of loans, and only

allowed them when they were convinced of their utility. If such Banks were established in India in large numbers they would have the benefit of the advice and help of the Registrar of Co-operative Societies in each Province, which would ensure that their business was conducted in a more or less businesslike way. There would be difficulties in connection with such Banks, but certainly not difficulties that could not be overcome, and he thought there was a very great scope for them in India. Another point at which Co-operative Banking came into touch with joint stock Banking, was in the arrangement by which each major Province, except one, had a Provincial Co-operative Bank, which in several cases had got into touch with the Imperial Bank, and had a cash credit account with them. The arrangements had not been long in existence, and were capable of almost unlimited expansion. The matter was of the very first importance, because the time of year when the money was required for agricultural operations, which the Co-operative Credit Societies chiefly financed, was the time of year, July to October, when he understood there was a glut of money in the Presidency towns. With regard to Land Mortgage Banks,

it had been recognised for a long time that they were of value in India in order to enable the landowners to raise capital for liquidation of their debts, and for the improvement of their land, the purchase of agricultural machinery, and so on. Another matter which was quite clear to those who were acquainted with the history of the Agricultural Bank of Egypt, was that too easy credit was not a thing that should be given to agriculturists, and that Mortgage Banks should be established on co-operative principles as in Germany and elsewhere. Recently, there had been a move in several Provinces towards the formation of such Banks, and in the previous week the Bombay Government had developed a scheme by which they would establish a Co-operative Bank for each area and assist the Banks in raising funds. Such Banks could be only financed by long term money raised by debentures, and for this the assistance of Government working through the money market was necessary.

Mr. A. GOPALJI, M.Sc.

Mr. A. Gopalji, M.Sc., said that Mr. Price had expressed himself with great enthusiasm, and if enthusiasm were an argument he had certainly won his case. He appeared to think that Indians could claim nothing to their credit, but he should like him to read some authoritative history of civilisation, and would call his attention to the opinion of Professor A. H. L. Heeren, a great authority from that point of view, who said that the whole civilisation of Europe and of the West had been derived from India. There was also a book entitled "Hindu Superiority," dealing with the subject, by Pandit Harvilas Sarda, a member of the Legislative Assembly, which he would recommend Mr. Price to read. The people of India wished to adapt European institutions to suit their own needs and their own genius, not to imitate them. They wanted all the best. Many European institutions, which had been grafted on India perforce, though with goodwill, by foreign rulers, Indians were now striving to get rid of, because they did not suit their conditions. Indians should not take everything that they saw—all was not gold that glittered. With regard to the question of usury, there was a celebrated classic entitled

" 'Prosperous' British India," by Mr. William Digby, which showed that the poor people under the stress of Government taxes were driven to the despised *bania*, who enjoyed the protection of the British Government.

Sir Charles Stuart Bayley, G.C.I.E., K.C.S.I., suggested that the *bania* and usury were also to be found in Native States.

Mr. Gopalji said he quite realised that point. Usury was a universal thing and was practised by the people who wanted to make money. The situation had to be realised from all points of view. As the Minority Report of Mr. Thakurdas indicated, the Banking system in India was regulated more in the interests of London than India. The Report was thoroughly documented and deserved consideration by those who wished to criticise. With regard to the hoarding habits of the people, he thought that was a saving factor of the situation, because, were it not for the hoarding habit, India would have been wiped out of existence long ago. Indians were in existence to-day because of their habits of parsimony. If they were not educated and taught to invest their money, why blame them because they did not do so? The paper was a

very instructive one, and he asked everyone interested to read the Minority Report which thoroughly threshed out the question of Indian conditions.

Mr. FRANCIS SKRINE, I.C.S. (Retd.)

Mr. Francis Skrine, I.C.S. (Retd.), said he could give some idea of the state of things in Bengal in connection with Indigenous Banking. The title of the lecture he thought was somewhat of a misnomer, because three-fourths of it was taken up by the subject of joint stock Banks, which were not indigenous, but purely exotic, and the growth of the last few years. Mr. Price had said that the *banias* were usurers, which was rather a hard word. The *bania* in Bengal, *mahajans*, as they were called in the mofussil, performed a very useful, indeed indispensable, function as long as the people were so ignorant as they were. The *mahajan's* clientèle was mainly composed of cultivators or small traders, to whom he advanced certain sums in cash every year, taking the whole of the crops from the agriculturists, storing them up and disposing of them. He was supposed to credit the cultivators with the profit, and advanced them the necessary seed at the proper time, as well as loans for ceremonies, on which an enormous amount of money was wasted. Without the *mahajan*, the cultivation of Bengal could not go on at all. The problem was very difficult; it was to graft on the system of private enterprise a system of Agricultural Banks where everyone

was responsible—jointly and severally responsible—for advances made to individuals. That was the case in Germany and in Italy, where the People's Banks did a vast amount of good. In India a large amount of Hughli water must run under the Howrah bridge before anything of the kind could be attempted. In Ireland, Sir Horace Plunkett had told him that while he was engaged in preaching the gospel of People's Banks, he was addressing an audience, mainly agricultural, in the South and explaining the system; an old peasant got up and said, "Shure, what your honour wants is that I shall guarantee £100 for my neighbour, and I will do so if he guarantees the same amount for me." It was a process analogous to kite flying, which was only too common in the towns of Europe. The hoarding habit was universal in India. There were 50 millions of gold absorbed by India in the most critical years through which Europe was passing, when stabilisation was being attempted. India had undergone in the past centuries many invasions, and the general fear of the future made people believe that there was nothing so safe as burying their gold or silver or turning it into women's ornaments. Some Native Princes set a very bad example in that respect. He knew of an Indian Prince

who had hoarded 16 million English sovereigns. Mr. Price had estimated the hoards of India at 1,000 million, but he would put it considerably higher. With regard to the lecturer's opinion that the cheque should be more used in India, that was a thing of the very remote future. The idea of the cheque was not common outside Great Britain and America. In France, where he spent the winter of last year, he had the greatest difficulty in getting a cheque for £20 cashed ; it took him three weeks to do it in the place he was staying, a remote corner of Province. The bank opened once a week, on market day, and the manager said he had no advice from Avignon, and that went on for three weeks. If such was the case in France, how very remote must be the contingency in India ! The use of a cheque book implied considerable education ; a man must at least be able to write his name, and only about 10 per cent. of the Indian population could do that. The difficulty of grafting a co-operative and cheque system on Indian methods, and inducing people to invest their money instead of hoarding it, would be simply enormous. At present their hidden hoards were a great delight to burglars.

SIR HENRY STRAKOSCH, G.B.E.

Sir Henry Strakosch, the Chairman, said that before concluding the discussion on Mr. Gubbay's very interesting paper, on which he wished to congratulate him, he should like to make a few comments on it. His knowledge of local banking conditions and practices in India was very limited, and if he ventured to offer some comments—with great diffidence—it was because of the very clear exposition of these conditions and practices in Mr. Gubbay's paper. His comments were based on these and on the little knowledge he acquired during a brief stay in India two years ago. Mr. Gubbay appeared to be doubtful as to how a Central Banking System, such as was recommended by the Royal Commission, could be superimposed on the existing Indigenous Banking System in India. His doubts seemed to be based mainly on two considerations :—

> First, the absence in native banking of securities of a character acceptable to an ordinary joint stock Bank or to the contemplated Reserve Bank of India ; and secondly, the difficulty of establishing that touch between the joint stock Banks and the native traders which was necessary if the business of the latter was to be brought within the ambit of the general banking machinery of the country working under the control of a Central Bank.

On the first point, the absence of a security suitable to a joint stock or central Bank, he thought Mr. Gubbay was labouring under a misapprehension. He seemed to be under the impression that, for a bill of exchange to become eligible for discount as a true commercial bill, it was indispensable that it should be supported by documentary evidence in the form of sale contracts, invoices, or documents of title of the goods in respect of which the bill had been drawn. It was true that, in the case of overseas bills drawn on London, invoices and shipping documents were attached, but those documents were released as soon as the bill had been accepted. From then onwards the bill circulated without any of those documents to support it. As far as domestic bills in this country, America, and the Continent were concerned, they were usually unaccompanied by any such supporting documents. They were, nevertheless, accepted as true commercial bills fit for discount in the Money Market and at the joint stock Banks, and for rediscount at the Central Bank, if the relations between the drawer and acceptor were such as to satisfy them of the legitimacy of the document as a true commercial bill. The bill of

a well-established hide merchant and accepted by a well-established tannery firm, for instance, would, in all probability, pass muster without question, even though no documents were tendered. A great many bills in this country, especially those connected with overseas trade, furnished on the face of them quite full particulars of the commodities on which they were based, but there were also bills in this country, but particularly on the Continent of Europe, which were regarded as true commercial bills, even though there was no specific reference in the body of the bill to the transaction on which they were based. A common form on the Continent, for instance, was to simply say, in the body of the bill, that it was drawn in respect of goods. The words usually employed were—"Value in goods." Yet those bills were freely taken by the Banks and rediscounted by the Central Banks, where they were satisfied, from their general knowledge of the drawer's and acceptor's business, that the bills represented genuine commercial transactions. In the United States, the regulations of the Federal Reserve Board required that a bill tendered to a Federal Reserve Bank should "be drawn so as to evidence the character of

the underlying transaction, but if it is not so drawn, evidence of eligibility may consist of a stamp or certificate affixed by the acceptor or drawer in a form satisfactory to the Federal Reserve Bank." In the case of bills which made no reference to the nature of the specific transaction to which they referred, and on which doubts arose in the minds of the discount broker, or banker, who was asked to discount the bill, it was customary for them to make enquiries regarding the circumstances in which the bill had come into being. That information was hardly ever refused, for the good reason that it did not pay to do so. Unless satisfactory information was furnished in those circumstances, the bill was either not taken or, if taken, only at substantially less favourable rates than would be obtainable for a good commercial bill. When once the trader learned to appreciate that a bill representing an exchange of goods commanded a readier market and a better price, he would probably be most anxious to conform to the requirements of the banker to satisfy him that the bill did truly represent such an exchange of goods. Self-interest would drive him to do so.

That was the experience of other countries, and he did not think that the Indian trader,

native banker, or *shroff*, would be less astute in taking full advantage of such a situation.

The second point was Mr. Gubbay's doubt whether it would be possible to establish that close touch between the joint stock Banks and the native banker and trader which was necessary if the business of the latter was to be brought within the ambit of the general banking machinery of the country under the control of a Central Bank. He understood Mr. Gubbay to say that the business of the Indian community rested almost entirely in the hands of the private native bankers, *shroffs*, and others, owing to two facts, *viz.*, that—

"They are able to give high rates for deposits because they are able to obtain high rates for accommodation granted," and—

"They are in intimate daily touch with their clients, whose doings they can follow with a closeness which is denied to the Banks."

In so far as high rates for accommodation were justified by the speculative nature of the transaction, they were not likely to appeal to the Banks. If the business of the native banker and *shroff* were confined to transactions

of a highly speculative character, the losses which they would unavoidably make from time to time would be sufficient to depress the rates which they could afford to allow to their depositors—if, indeed, the depositors were not frightened away altogether. The assumption seemed to be legitimate, therefore, that a good portion of the business which the native bankers and *shroffs* do was not really speculative, and needed merely to be cast into a form which would justify more favourable terms and render the business acceptable to the joint stock Banks. He saw no good reason why it should not be possible to cast it into such form. When once there was a clearer understanding that certain classes of credit operations were welcomed by the Banker, and that they could be carried through on more advantageous terms, the native trading and banking community would not be slow in complying with the requirements of the big joint stock Banks. To illustrate this ; before the Federal Reserve System was established in the United States in 1914, a bill of exchange was practically an unknown thing in America. Promissory notes (that is, one name paper) were the order of the day. Yet within a

comparatively short period of time the community adjusted itself to the new conditions, which was strikingly illustrated by the following figures :—

MILLIONS.			
VOLUME DURING MONTH.			
	Sept. 1915	Sept. 1916	Sept. 1917
BILLS DISCOUNTED DURING (Bills discounted for Member Banks)	14	14	548
BILLS BOUGHT IN OPEN MARKET (Bankers' and trade acceptances)	5	37	109
	19	51	657

America entered the war in 1917, and that might have a good deal to do with the sudden increase of bills discounted, bought in that year.

With regard to the channels through which a Central Bank reached the wider public, and through which it was enabled to exercise its influence in regard to its credit policy, it was clearly what was generally called the Money Market which constituted that link. A very important element of the Money Market in

London was, of course, the money and discount broker. He employed his own capital and the funds which were placed at his disposal, usually by way of call money, to acquire bills of exchange largely from the trading community. To the extent to which his resources permitted he ran the bills, but, if for one reason or another the funds at his disposal were curtailed, he disposed of the bills either by discounting them at a joint stock Bank, or, if for reasons of stringency they were not prepared to discount them, he took them to the Bank of England, knowing that the Bank of England was always prepared to discount good bills, which were clearly the result of a true commercial transaction. That knowledge was one of the strongest pillars on which our modern credit organisation rested. The bill broker's business, therefore, was a pretty safe one, provided he conformed to these rules, and the profits he earned depended very largely on his turnover. He constituted one of the most important links between the Central Bank and the wide public. From the description which Mr. Gubbay gave, the *shroff* was already performing—it was true, only to a minor extent—those very functions, and therefore was a most valuable nucleus for the establishment

of a real Money Market in India. If he were certain that the joint stock Banks were always ready to lend on, or discount, true commercial bills by reason of the fact that the Reserve Bank of India was always prepared to discount them, there did not seem to be any reason to doubt that the *shroff* whose profit, like that of the bill broker in London, depended on turnover—would seek to acquire such bills wherever they could be obtained. The same remarks, of course, also applied to the small native banker. It would be through these that the influence of the Reserve Bank would reach the bazaars, for it was clearly to the advantage of the *shroff* and of the small banker to borrow money on the security of good bills, at the more favourable rates of the joint stock Banks, rather than to pay high rates for deposit money in the bazaars. That did not, of course, necessarily imply that bazaar rates for business not fit to be undertaken by the joint stock Banks would not remain high, but that was a state of things which obtained in every other country. London also had high " bazaar " rates for business that was not eligible for the Money Market or the Banks—money-lenders' rates. Mr. Gubbay's paper had made him, if anything, even more optimistic

than he was with regard to the possibility of establishing a broad Money Market in India, and, through it, of establishing a strong link with the joint stock Banks and the Reserve Bank of India. He realised that it would take thought, goodwill on the part of the joint stock Banks, labour and time, to establish it on a sufficiently broad basis to enable the Central Bank to make its policy felt widely and rapidly. But even if India were less fortunate—as many other countries had been which had established the Central Banking System—in not possessing so valuable a nucleus for a Money Market, every effort would have to be made to establish one. He was optimistic enough to think that, if a thing was worth attaining, human ingenuity usually conquered the difficulties and attained it. It would be attained when the ethics of sound modern banking had penetrated into the bazaars. Self-interest would make that penetration an easy one. If India was to expand her Banking organisation—and there was a clear consensus of opinion that she must do so if her vast resources were to be adequately exploited—two things were essential: the establishment of a true Central Bank and of a Money Market. To attempt to expand the Banking organisation

without those would be positively dangerous. The growth of the credit organisation must not be the unco-ordinated growth of the jungle, but an ordered growth—a growth which naturally followed from the growth of confidence in the stability of the organisation. Experience had clearly shown that no credit system could be regarded as safe which did not rest on the centralisation of banking reserves and on the mobility of credit through the bill of exchange. No other system had proved adequate in times of crisis. There was a typical experience in the case of the United States, of which it might truly be said that the credit organisation until 1914 had grown up in jungle fashion, unco-ordinated and unorganised. The violent crisis which had shaken the United States at almost regularly recurring intervals had unquestionably retarded the economic progress of that rich continent by decades. If India were unfortunately to be visited by a violent credit crisis, the loss of confidence might set back the clock of banking expansion by a decade or more —not to speak of the stupendous loss it would inflict on her internal economy. The potential wealth of India was immense, and he believed that nothing would help to develop it—and with

it to raise the standard of living of the people of India—so rapidly as the establishment of a sound credit system under the protecting wing of a true Central Bank of issue of the orthodox pattern; but that Bank must be organised on lines which would assure its performing its functions without fear or favour, and free from political or sectional influence, in the sole interest of monetary stability, which implied safe and sound credit conditions. He held strong views on this last point, but it was perhaps better not to enlarge on it lest it should add fuel to the fire of controversy in India of recent months. He confessed himself to be an incorrigible optimist both as regards the possibility of India adapting herself to a modern Central Banking System, and as to the immense benefit the system, if established on orthodox lines, would confer on her. In conclusion he proposed a hearty vote of thanks to Mr. Gubbay for his very instructive paper, and for having thus given an opportunity for an interesting, and fruitful discussion of a very important subject.

SIR REGINALD A. MANT, K.C.I.E., C.S.I.

Sir Reginald A. Mant, K.C.I.E., C.S.I. (Chairman of the Indian Section), in moving a hearty vote of thanks to the lecturer and to the Chairman, said the Financial Department of India suffered a great loss when Mr. Gubbay resigned prematurely from the Civil Service, in which he had already made his mark as Controller of Currency and Financial Secretary and had done his bit in the early part of the war as Wheat Commissioner in mobilising the grain resources of India for the benefit of the Allies. When he (the speaker) was in charge of the Department of Revenue and Agriculture, problems were continually arising, but it was found that all that had to be done was to carry on on the lines Mr. Gubbay had initiated. He noticed a little note of pessimism at times in the paper, and he could only hope Mr. Gubbay would be inspired with some of the Chairman's optimism, because Sir Henry Strakosch was one of the leading authorities on Central Banking—the leading authority it might be said. He thought India was very fortunate in securing his services on the Currency Commission.

The motion was carried unanimously.

Mr. Gubbay, in returning thanks, said it was a great pleasure to him to read the paper. He was afraid that there was a tinge of pessimism in it, and there was still a tinge of it in himself in spite of the Chairman's breezy optimism. He would be prepared to maintain his pessimism against the Chairman's optimism, but he did not wish to detain the audience any longer.

The Chairman having briefly returned thanks, the Meeting then terminated.

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